

Message Text

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LIMDIS

E.O. 11652: GDS

TAGS: ETRD EFIN UR US

SUBJECT: SOVIET NEGOTIATIONS WITH GENERAL MOTORS: THE SHAPE
OF US-SOVIET TRADE IN 1975

REF: MOSCOW 2113; STATE 29161

1. SUMMARY. EMBASSY BELIEVES THAT RECENT SOVIET NEGOTIATIONS WITH GENERAL MOTORS CORPORTATION FOR DOLS 50 MILLION WORTH OF TIMBER INDUSTRY EQUIPMENT POINT TO SOME PROBABLY TRENDS IN US-SOVIET TRADE IN IMMEDIATE FUTURE. THEY INCLUDE CONTINUED FORWARD MOVEMENT IN SOVIET CAPITAL EQUIPMENT PURCHASES FROM US FIRMS DUE TO SOVIET INABILITY TO SATISFY ALL REQUIREMENTS IN EUROPE AND JAPAN, AND EFFORTS BY BOTH SOVIETS AND US SUPPLIERS TO CIRCUMVENT LACK OF NEW EX-IM CREDITS THROUGH VARIOUS ARRANGEMENTS WHICH INCLUDE BARTER, USE OF FOREIGN CREDITS AND LARGE PACKAGES OF "CHEAPEST POSSIBLE" US COMMERCIAL CREDITS RAISED THOUGH BANKING CONSORTIA.
END SUMMARY.

2. EMBASSY FINDS CURRENT GENERAL MOTORS NEGOTIATIONS WITH SOVIET FOREIGN TRADE ORGANIZATIONS FOR POSSIBLE SALE OF DOLS 50 MILLION WORTH OF TIMBER HANDLING EQUIPMENT, PLUS ADDITIONAL SOVIET INTEREST IN PURCHASE VERY LARGE CAPACITY
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GM TRUCKS FOR PROBABLE USE AT NORILSK NICKEL MINES, AN

INTERESTING INDICATION OF SOME TRENDS WHICH MAY BE EXPECTED
IN US-SOVIET TRADE IN MONTHS AHEAD.

3. COMING JUST ONE MONTH AFTER ANNOUNCEMENT OF SOVIET DECISION
NOT TO IMPLEMENT 1972 TRADE AGREEMENT, GM TALKS HAVE TAKEN
PLACE IN SITUATION WHERE SOVIET NEGOTIATIONS FULLY AWARE THAT NEW
U.S. EX-IM CREDITS OF ANY KIND ARE OUT OF QUESTION--AT LEAST
FOR NEAR AND INTERMEDIATE FUTURE. THESE NEGATIVE FACTORS
HAVE BEEN ACCOMPANIED BY EMPHASIS IN SOVIET PRESS THAT "NOW
IS TIME FOR WESTERN EUROPE TO PLAY ITS CARD"--THAT EUROPEAN
AND JAPANESE FIRMS CAN STEP IN AND RECEIVE LUCRATIVE SOVIET
ORDERS THROUGH LOW-COST FINANCING NOW THAT AMERICANS ARE OUT
OF THE GAME.

4. IN REALITY THE PICTURE IS IN NO WAY SO CLEAR CUT.
OTHER WESTERN TRADING PARTNERS ARE LESS WELL QUALIFIED TO SUPPLY
TECHNOLOGY WHICH USSR REQUIRES. THE RISE IN OPEC ORDERS
WITH MANY EUROPEAN FIRMS IS A FURTHER LIMITATION
ON THEIR CAPACITY TO SATISFY SOVIET NEEDS. NOR ARE THERE CLEAR
INDICATIONS THAT EUROPEAN AND JAPANESE CREDITS WILL BE AVAILABLE
IN QUANTITY AND AT PRICE WHICH SOVIETS EXPECT TO GET.
CONSEQUENTLY, WE BELIEVE THAT DURING 1975--BARRING SOME
SIGNIFICANT POLITICAL SHIFT IN SOVIET DETENTE POLICY--
THERE WILL BE CONTINUED FORWARD MOVEMENT IN SOVIET-US TRADE
AND PARTICULARLY IN SOVIET CAPITAL EQUIPMENT PURCHASES FROM
THE US. THIS WILL BE SUPPORTED BY SEVERAL FACTORS-- BY THE
MOMENTUM IN US-USSR ECONOMIC RELATIONS WHICH HAS DEVELOPED OVER
THE PAST THREE YEARS, BY SOVIET RECOGNITION THAT MUCH OF THE
EQUIPMENT USSR NEEDS CAN BE OBTAINED ONLY OR MAINLY FROM US
SUPPLIERS, AND ABOVE ALL BY PERSISTENT, PRAGMATIC EFFORTS BY
SOVIET BUYERS AND US SUPPLIERS TO BYPASS BARRIERS IMPOSED
BY THE ABSENCE OF EX-IM FINANCING.

5. THE CURRENT SOVIET NEGOTIATIONS WITH GM EXEMPLIFY ESPECIALLY
THE ADEPT CIRCUMVENTION OF CREDIT BARRIERS BY BOTH SOVIET BUYER
AND US SELLER. PAYMENT AND FINANCING IS BEING MANIPULATED THROUGH
SEVERAL ARRANGEMENTS, ALL OF THEM OUTSIDE THE NORMAL APPARATUS
FOR A SOVIET PURCHASE OF EQUIPMENT FROM A U.S. FIRM. WITH ASSISTANCE
OF SHORT AND MEDIUM-TERM FINANCING, PAYMENT WILL BE ESSENTIALLY
BARTER--THROUGH THE SALE OF TIMBER TO JAPAN.
AND INTEREST RATES FOR LIMITED AMOUNTS OF FINANCING WILL BE
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"ARRANGED"--THROUGH ASSISTANCE OF U.S. SUPPLIERS--BY PURCHASE
OF SOVIET PROMISSORY NOTES AND THE INCLUSION IN THE PRODUCT
PRICE OF INTEREST RATE DIFFERENTIAL OVER THE 7.2 PERCENT SOVIETS
WISH TO PAY.

6. WE ENVISION A PERIOD OF CONTINUED SOVIET NEGOTIATIONS
WITH U.S. FIRMS, ACCOMPANIED BY A SOVIET ATTEMPT TO ACQUIRE
LARGE PACKAGES OF RELATIVELY CHEAP U.S. COMMERCIAL CREDIT

THROUGH VARIOUS SPECIAL ARRANGEMENTS WHICH WILL INVOLVE ASSISTANCE FROM U.S. SELLERS AND U.S. BANKS. EMBASSY HAS RECEIVED INDICATIONS THAT SOVIETS INTEND SEEK ASSISTANCE FO SEVERAL LARGE U.S. CORPORATIONS TO INTERVENE WITH MANY (PERHAPS DOZENS) SMALL- TO MEDIUM-SIZED U.S. BANKS TO CHIP IN WITH "GOOD-WILL" CREDITS TO THE FIRMS AT CONCESSIONARY RATES. THESE FUNDS WOULD THEN BE AVAILABLE TO USSR FOR EQUIPMENT PURCHASES--AND NOT NECESSARILY FROM COMPANIES INVOLVED. AS INDUCEMENT SOVIETS ARE IMPLYING THAT LARGE ORDERS WILL BE PLACED WITH THESE COMPANIES. THE "DOLS 80-100MILLION" GM SEGMENT MAY BE ONLY SMALL PART OF MUCH LARGER, LOW-COST CREDIT PACKAGE SOVIETS HOPE TO PUT TOGETHER IN US (PERHAPS RUNNING TO SEVERAL BILLION DOLLARS). COMMENTS MADE BY VNESHTORGBANK CHAIRMAN IVANOV DURING RECENT VISIT TO US PRESUMABLY RELATE TO THIS INITIATIVE, WHICH LIKELY TO GATHER MOMENTUM DURING VISIT OF ALKHIMOV, SUSHKOV, AND OTHERS TO U.S. BEGINNING THIS WEEK.

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